

EU-Western Balkans relations

Macroeconomic situation and EU financial support

SUMMARY

In 2003, at the Thessaloniki Summit, the European Council set out its determination to fully support the EU perspective of the Western Balkan countries. However, in the context of relatively limited progress in implementing reforms needed to align with the EU, none have joined since Croatia's accession in 2013, since when the region has been confronted by 'enlargement fatigue' and increasing Russian and Chinese interference. Responding to these challenges, European Commission President Ursula von der Leyen, who took office in November 2019, defined a new EU external policy strategy as a tool that 'stabilises its neighbourhood and accelerates enlargement'.

Several political initiatives followed, to accelerate the Western Balkans' EU integration. These have included the reformed enlargement policy, endorsed in February 2020, adopting the third Instrument for Pre-accession Assistance (IPA III) programme, for 2021-2027, with an allocation of over €14 billion, and the latest proposal of the Reform and Growth Facility (the Facility) (€6 billion) under the new Growth Plan for the Western Balkans. Together, IPA III funds and the Facility will constitute the main financing instruments for the region, helping to increase socio-economic convergence with the EU. President von der Leyen said that the Facility 'could double the economy of the Western Balkans in the next 10 years'.

The Facility is a tangible result of the new 'gradual integration approach' endorsed by the European Council in June 2022. It aims to provide benefits of EU membership, even before accession to the EU, particularly through participation in the 'four freedoms' of goods, capital, services and people. The proposal for the Facility of 8 November 2023 links fulfilment of reform commitments with access to funding, incentivising reforms while allowing the Western Balkans to benefit from key areas of the single market. The Facility is set to complement the IPA III thematic allocation approach, by focusing on the specific determinants of social and economic growth.

The European Parliament supports the enlargement policy as a strategic investment for peace and security. It has endorsed recent enlargement policy reforms, including a gradual approach. Parliament is scheduled to hold a debate and vote on the legislative resolution on the Facility for the Western Balkans during its second April 2024 plenary session.



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Background

Geographically located in Europe and surrounded by EU Member States, the six Western Balkan (WB) countries – Albania, Bosnia and Herzegovina, Kosovo,* Montenegro, North Macedonia, and Serbia – are strategic partners of the EU, which, since the [2003 EU-Western Balkans Summit](#) in Thessaloniki, have been promised a path towards their 'European future'. The EU accession process is therefore at the centre of EU-Western Balkans [relations](#). Enlargement is a strategic objective, with the shared goal of creating stability, peace and prosperity in the region. However, since Croatia's [accession](#) in 2013, the process has stalled and not a single country has joined the EU. Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia have 'candidate country' status; Kosovo remains a 'pre-candidate' country. The two countries that are most advanced on their path towards the EU, Montenegro and Serbia, started accession negotiations back in 2012 and 2014 respectively, while Albania and North Macedonia opened accession negotiations in 2022. On 12 March 2024, President von der Leyen [proposed](#) to open accession negotiations with Bosnia and Herzegovina, following which the European Council decided to open these negotiations once the necessary degree of compliance with the membership criteria has been achieved.

The Stabilisation and Association Agreements ([SAAs](#)) between each of the WB partners and the EU continue to form the overall framework for relations. Six separate SAAs establish permanent cooperation structures and provide for political and economic cooperation and the establishment of free trade areas. The mutually beneficial cooperation between the EU and the WB countries aims to bolster [trade relations](#), addressing shared security challenges, collaborating in the area of common foreign and security policy (CFSP) and common security and defence policy (CSDP), and achieving political and economic convergence, among other things.

To join the EU, the WB countries (as is the case for other eligible European countries wishing to join the EU) are required to fulfil the accession criteria, also known as the [Copenhagen criteria](#), defined by the European Council in Copenhagen in 1993. In line with the Copenhagen criteria, WB countries have to meet the following conditions: (a) have stable political institutions – guaranteeing democracy, the rule of law, and human rights; (b) have a functioning market economy and the capacity to cope with competition and market forces; and (c) have the capacity to meet EU membership commitments. Fulfilling these criteria requires not only strong political will, commitment and efforts, but also implementing numerous, often extensive, administrative and institutional reforms in different sectors. The EU has been providing the WB partners with political, financial and technical support, and is today the primary political and economic partner and biggest investor in the Western Balkans. EU funding covers many [fields](#), including connectivity, culture and youth, democracy and fundamental rights, the economy, the environment, equality and a fair society, innovation and skills. In addition, the EU provides political and financial support to foster good neighbourly relations and build shared prosperity through regional integration. To operationalise the actions, numerous EU initiatives and several complementary funding programmes and instruments are available for the Western Balkans. Importantly, EU support for the WB countries is also beneficial for the Union itself, as it helps the EU achieve its own objectives, including a more sustainable economic situation, improved energy supply, trans-European transport corridors, environment, and stability and peace in the region.

In February 2020, in the context of WB partners' slow progress towards accession and rising [frustrations](#) over the lengthy path towards membership, the European Commission adopted a new [methodology for enlargement](#), which aimed to reinvigorate the accession process by making it more transparent, credible and conditional on the progress made in introducing reforms. To operationalise the new approach to enlargement and to support post-pandemic recovery, in October 2020 the Commission presented a comprehensive Economic and Investment Plan for the Western Balkans ([EIP](#)) setting out a substantial investment package in the region. Since then, experts

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of Independence.

have made new [proposals](#), calling for a 'gradual' or 'staged' approach, not only offering greater financial assistance but also gradual integration of accession countries into the single market, conditional on their internal reform progress. Following Russia's full-scale invasion of Ukraine, the June 2022 European Council [conclusions](#) further emphasised the merits of this [gradual approach](#). Economic convergence, easier access to EU funds and the benefits of the single market are among the key proposals of the gradual approach; it also aims to support mutually beneficial [trade relations](#) and to rebalance trade relations between the EU and the region, as the EU has a relatively large, and increasing, [trade surplus with the Western Balkans](#). On 8 November 2023, the Commission [confirmed](#) its recommendations to speed up the accession process and, to this end, it [unveiled](#) the Reform and Growth Facility under the new [Growth Plan](#) for the Western Balkans, which, together with the Instrument for Pre-accession Assistance (IPA III), will be the main instruments to reinforce financing of the Western Balkans during 2024-2027.

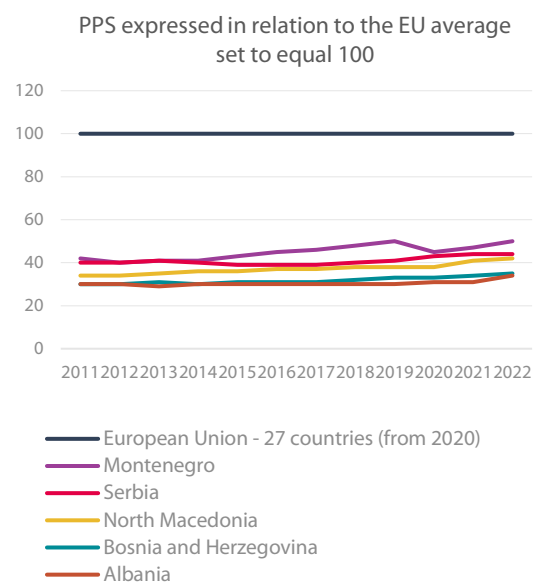
Macroeconomic situation

The WB countries are predominantly [service-oriented](#), open, **upper-middle income** economies. While services account for a bit more than 52 % of the region's GDP, the contribution of industry stands at 23.4 %. The share of GDP generated by the [agriculture sector](#) has decreased significantly over the last two decades, although not equally among Western Balkan economies. The share of agriculture in GDP is almost 23 % in Albania, around 3 % in Bosnia and Herzegovina and North Macedonia, and 7.5 %, 8 % and 10 % in Serbia, Montenegro and Kosovo respectively. Importantly, the [sector](#) still employs almost 19 % of the region's labour force.

According to OECD [estimates](#), since the early 2000s the region's economic performance has increased noticeably. Between 2003 and 2022, there was a 79 % increase in the region's average GDP per capita, compared to the average increase of 27 % in the EU. However, despite the positive convergence with the EU trend, the WB countries are still far from closing the gap that separates them from the EU. Currently, their GDP per capita at purchasing power parity (PPP) is only slightly over one-third of the EU average GDP per capita. This gap makes it harder for the political leaders of the WB countries to deal with economic and political reforms, as they often require simultaneous redistributive measures. If the current average growth levels for both the Western Balkans and the EU remain the same, **convergence of income levels would not be achieved before 2076**.

The moderate [economic growth](#) since the aftermath of the global financial crisis of 2007-2008 reflects numerous **underlying structural challenges**; these undermine productivity and capital accumulation, which are essential to achieving socio-economic convergence with the EU. Despite significant progress, the [business environment](#) remains [challenging](#) due to [corruption](#), low levels of trust, administrative and regulatory burdens, competition deficiencies and the flourishing informal sector, among other things. Infrastructure [gaps](#), especially in the transportation sector, also [undermine](#) competitiveness, investment and integration into the single market and global value chains. Skills deficiencies and high unemployment, especially among young people, further constrain productivity and cause young – skilled and unskilled – workers to migrate. In parallel, [slow](#)

Figure 1 – GDP per capita in purchasing power standard (PPS)



Source: [Eurostat](#), EPRS, 2024.

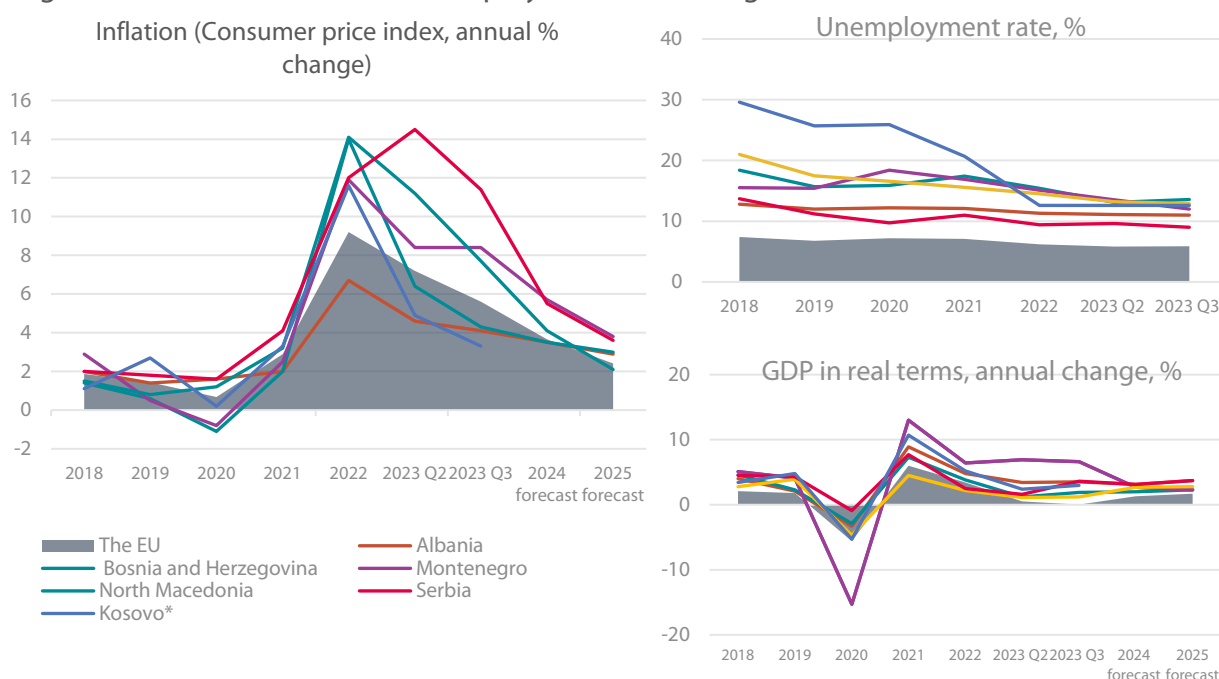
decarbonisation and the lagging [transition](#) to renewable energy sources, poor resource management and a [lack](#) of effective climate action pose risks to sustainable economic growth.

Latest macroeconomic trends

More recently, the **pandemic** has had a significant [impact](#) on the WB economies: together with 2008, 2020 was the only year when convergence of income levels did not occur, indicating that external shocks disproportionately affect the region's economies, and highlighting the need for increased resilience. While economic activity bounced back in 2021, since early 2022 the [fallout](#) from **Russia's war of aggression against Ukraine**, the related energy crisis and a slowdown in global growth and tightening of global finances have [negatively](#) affected the economic rebound in the Western Balkans.

Following the slowdown, growth improved in the third quarter of 2023, when the region's real GDP [growth](#) accelerated to 3.1 %. In Serbia, the region's largest economy, it rose to 3.6 % from 1.6 % in the second quarter. According to the [World Bank's new Western Balkans Regular Economic Report](#), economic growth in the Western Balkans is expected to accelerate moderately in 2024 to 3 % amid continued recovery in the EU, the region's main trading partner, and lower inflation that should help strengthen disposable income and support consumption. In addition, in 2023 the region's labour market continued to strengthen, with the average employment rate reaching a historic high of almost 48 %, with an additional 103 000 jobs being created between mid-2022 and mid-2023. Albania, Bosnia and Herzegovina, and Montenegro showed the strongest results. According to the [OECD](#), employment rates in the region have the highest degree of convergence with the EU, standing at 80 % of its average. However, despite recent momentum, [unemployment](#) remains high compared with the EU, ranging from 9 % in Serbia to 13.6 % in Bosnia and Herzegovina during the third quarter of 2023.

Figures 2-4 – Latest inflation, unemployment and GDP growth statistics



Source: [European Commission](#), EPRS, 2024.

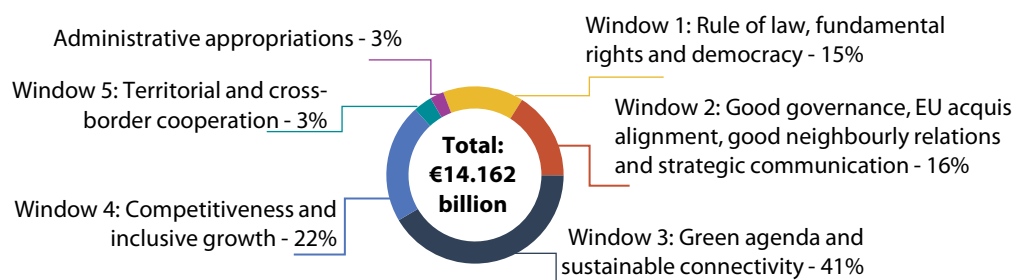
According to [Xiaoqing Yu](#), World Bank Country Director for the Western Balkans, even in the context of the multiple shocks, the WB countries have been able to grow, create jobs, and reduce poverty, which is 'a testament to the region's strong economic fundamentals'. While he describes the Western Balkans' continuing progress in catching up with economies of the EU, Yu notes that 'convergence is taking place at an uneven speed, which requires targeted reforms to consolidate the recovery toward sustainable growth'.

Instrument for Pre-accession Assistance (IPA)

The biggest EU budget line for WB accession countries comes from the IPA, which aims to support beneficiaries in adopting and implementing political, institutional, legal, administrative, social and economic reforms, thereby contributing to their stability, security and prosperity and bringing them closer to the EU. Since 2007, WB countries have had access to three successive multiannual IPA programmes: IPA I (2007-2013), with a budget of €11.5 billion, IPA II (2014-2020), with a budget of €12.8 billion, and, currently, [IPA III](#) (2021-2027), with a budgetary envelope of **€14.162 billion**. In addition to WB countries, IPA funds are allocated to [Türkiye](#).

[IPA III Regulation \(EU\) 2021/1529](#), adopted on 15 September 2021, is the primary legal basis for the provision of EU financial assistance under IPA III. The [IPA III Programming Framework](#), a **single strategy document** replacing the former country and multi-country strategy papers, defines the IPA III programming approach for the duration of the 2021-2027 multiannual financial framework (MFF). EU assistance under IPA III focuses on the priorities of the enlargement process according to **five thematic windows**, notably: (1) rule of law, fundamental rights and democracy; (2) good governance, *acquis* alignment, good neighbourly relations and strategic communication; (3) green agenda and sustainable connectivity; (4) competitiveness and inclusive growth; and (5) territorial and cross-border cooperation (see Figures 5 and 6 below). These windows are complementary to each other and mirror the clusters of negotiating chapters in the revised enlargement methodology.

Figure 5 – Indicative allocation under IPA III (2021-2027)

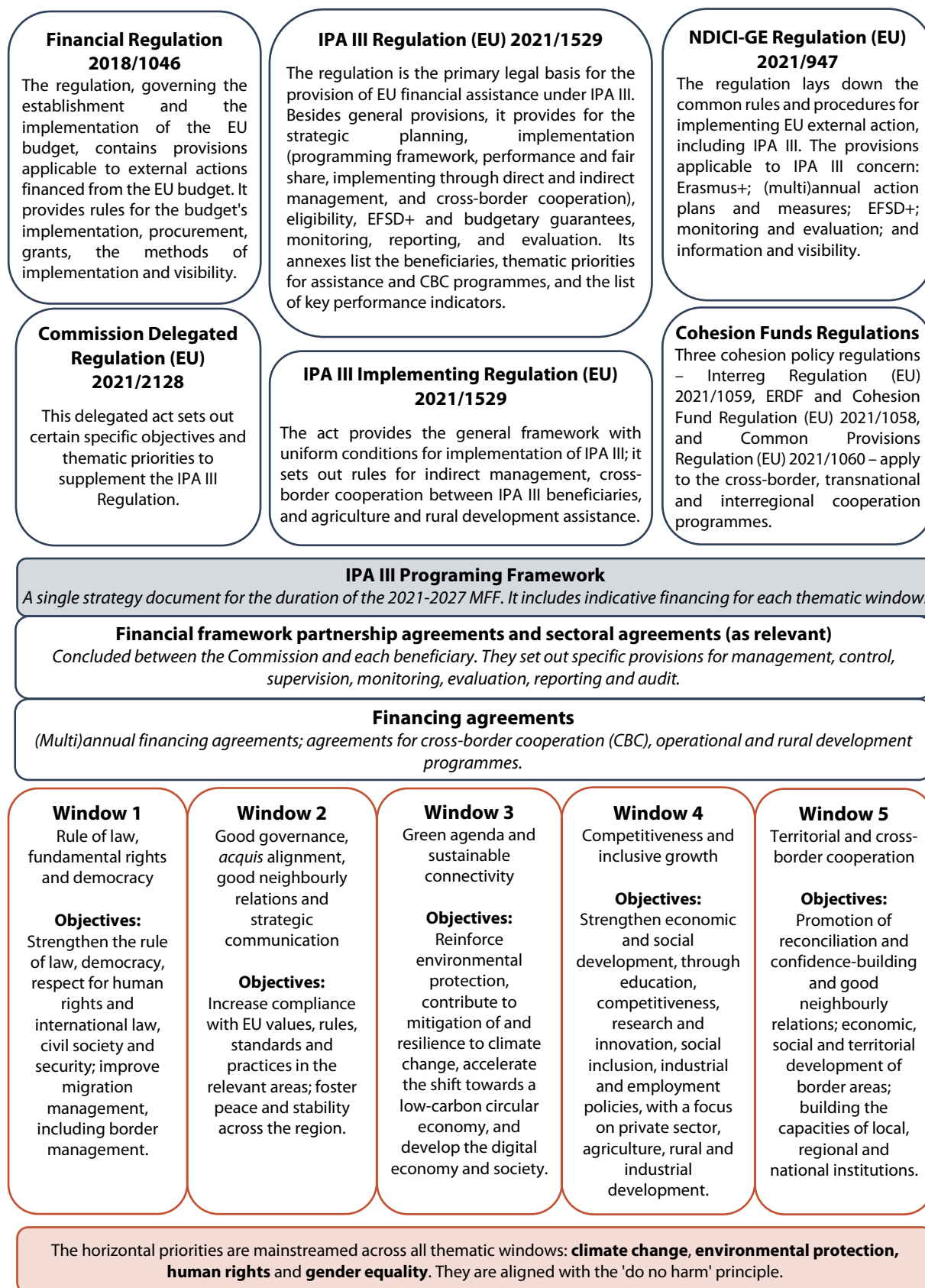


Source: European Commission, EPRS, 2024.

The **horizontal priorities** of climate change, environmental protection, human rights and gender equality are mainstreamed across all thematic windows. Unlike its predecessors, the IPA III Regulation sets **specific thematic spending targets** for EU pre-accession funding. Actions under IPA III are expected to contribute 18 % of the overall financial envelope to **climate objectives**, with a view to increasing this percentage to 20 % by 2027. Based on the estimates, the IPA III measures would contribute €4 billion to climate mainstreaming in 2021-2027. For **biodiversity**, the overall ambition is 7.5 % in the first four years of the MFF and 10 % in the last two years; this applies to the EU budget (not by funding instrument). In addition, by 2025, 85 % of new IPA III **actions need to be gender-responsive** and contributing to achieving gender equality, with 5 % of these actions having gender equality, women's and girls' rights and their empowerment as a principal objective. In parallel, the IPA III Regulation explicitly states that the role of civil society, and local and regional authorities should be enhanced in all programmes implemented through government bodies. Furthermore, **civil society organisations, and local and regional authorities should be duly consulted** and have timely access to relevant information to allow them to play a meaningful role during the design and implementation of programmes and the related monitoring processes.

As with its predecessors, IPA III is implemented through direct, indirect and shared management,¹ with a view to progressively transitioning from direct to indirect management, in line with the respective capacities of the beneficiaries. IPA III assistance can be implemented through a wide spectrum of financing modes – including grants, procurement, budget support, contributions to EU trust funds, financial instruments, budgetary guarantees, and Team Europe Initiatives ([TEIs](#)).

Figure 6 – Legal basis and structure of IPA III



Source: European Commission, EPRS, 2024.

The assistance under IPA III is based both on a **performance-based approach** and on the **fair share principle**. This means that, on the one hand, the assistance is differentiated in scope and intensity

according to the performance of IPA III beneficiaries (performance-based approach). On the other hand, to avoid a disproportionately low level of assistance compared to other beneficiaries, the respective needs and capacities of the beneficiaries are taken into account (fair share principle).

Table 1 – List of key indicators and performance of Western Balkan countries

Key indicator	Notes	Evaluation (2022)
Composite indicator on political criteria	Includes five elements: functioning of the judiciary; fighting against corruption; fighting against organised crime; freedom of expression; public administration reform.	2.1/2.8 On track
Composite indicator on Union <i>acquis</i> alignment	Assesses the level of alignment with the EU <i>acquis</i> across all negotiating chapters and EU related reform.	2.56/2.7 On track
Composite indicator on economic criteria	Assesses the progress towards a functioning market economy and the capacity to cope with the market forces within the EU.	2.5/3.0 On track
Attitude towards the EU	Percentage of population with a positive general attitude towards the EU.	71.8/67.5 moderate progress
Expenditure on social protection as a % of GDP; employment rate; changes in the Gini coefficient.	Data source: Eurostat	--
Digital skills	Data source: Eurostat	--
'Ease of doing business'	Data source: World Bank	--
Energy intensity and the share of renewable energy	Data source: Eurostat	--
Greenhouse gas emissions avoided; particulate matter 10 (PM10) concentrations compared to the EU daily limit value.	Data: European Environmental Agency and the European Commission	--
Areas of marine, terrestrial and freshwater ecosystems under a) protection, b) sustainable management with IPA III support		--
Good neighbourly relations	Number of cross-border partnerships; % of intra-regional trade to GDP; daily number of persons and of goods transporting vehicles crossing the border.	--

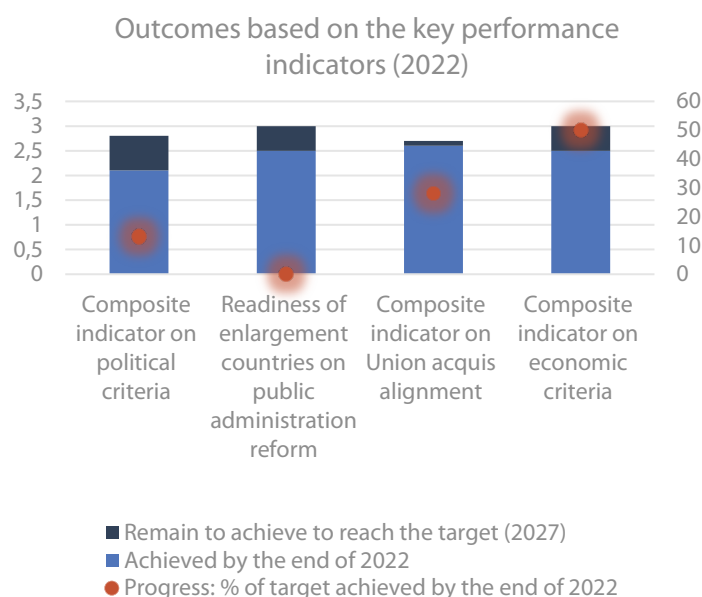
Data source: Annex IV of [Regulation \(EU\) 2021/1529](#).

- **Performance:** IPA III incentivises beneficiaries by rewarding those that perform better, accelerating and intensifying support. At the same time, it provides for adjustment of the scope of support and for holding back some forms of support to push for reform in the case of a significant or persistent lack of progress on the rule of law and fundamental rights, democratic institutions and public administration reform, economic development and competitiveness. Performance is assessed as part of the annual programming process – the Commission is required to present an annual assessment to the IPA III committee, consisting of the representatives of the Member States. The assessment is based on the indicators² included in the IPA III programming framework, and takes into account the findings of enlargement reports, external expert assessments, and beneficiaries' track record in implementing Commission recommendations, among other things. Based on the annual assessment or the mid-term evaluation, the Commission may propose to

revise the programming framework as appropriate. Following the adoption of the IPA III legal framework in the second part of 2021 and the conclusion of the framework agreements with beneficiaries in 2022, full implementation started in 2022. Therefore, most IPA III measures are at an early stage of implementation, and the aggregate results remain to be seen. However, IPA III programmes are building on the results of IPA II programmes, which, together with the developments on the path to EU accession, may indicate the expected direction of IPA III performance.

- **Fair share principle:** IPA III assistance aims to ensure progress with respect to all beneficiaries, regardless of where they stand in the accession process. Fair share means that no IPA III beneficiary who is committed to IPA III objectives should receive a disproportionately low level of assistance compared to other beneficiaries. The fair share principle is integrally linked to performance, and both are assessed in parallel during the annual programming process.

Figure 7 – Western Balkan countries' performance based on key indicators



Source: [European Commission](#), EPRS, 2024.

Synergies with other EU initiatives

To maximise the impact of the assistance and ensure the most efficient use of available resources, IPA III can contribute to actions under other programmes, as long as the contributions do not cover the same costs. In particular, IPA III is complementary to the Neighbourhood, Development and International Cooperation Instrument – Global Europe ([NDICI](#)) and the European Fund for Sustainable Development Plus ([EFSD+](#)) established under [Regulation \(EU\) 2021/947](#). The EFSD+ is an integrated financial package supplying financing capacity in the form of grants, budgetary guarantees and other financial instruments.

IPA III is also aligned with the flagship initiatives and priorities of the [Green Agenda](#) for the Western Balkans and the [Economic and Investment Plan for the Western Balkans](#) (2020). The **EIP** is an essential component of the programming framework for IPA III, aiming to [mobilise](#) up to €9 billion from the IPA III package and attracting additional investments worth €20 billion from the European Investment Bank and the European Bank for Reconstruction and

Key initiatives: EIP and WBIF

The **Economic and Investment Plan for the Western Balkans (EIP)** is a plan that sets out an investment package for the region. It mobilises up to €9 billion of IPA III funding for 2021-2027, and envisages that investments will be boosted by the mobilisation of the Western Balkans Guarantee Facility, with the ambition to potentially raise investments of up to €20 billion.

The **Western Balkans Investment Framework (WBIF)** is a joint initiative of the EU, financial institutions, bilateral donors and beneficiaries, aimed at enhancing harmonisation and cooperation in investments for the socio-economic development of the region and contributing to the European perspective of the Western Balkans. The WBIF is the main vehicle to ensure swift deployment of the investment package under the EIP.

Development, as well as from other international financial institutions. In particular, the **Western Balkans Guarantee Facility** – the Western Balkans arm of the [External Action Guarantee](#), also established under Regulation (EU) 2021/947, is used to leverage funds from the private and public sector and promote investment in the region to multiply the effect of EU assistance. The **Western Balkans Investment Framework (WBIF)**, established in 2009 and bringing together the European Commission, six international financial institutions and 20 bilateral donors, ensures these operations. Of the almost €30 billion investment package for the region, €16.6 billion has already been mobilised.

IPA III is also in line with the [Commission communication](#) on 'Enhancing the accession process – a credible EU perspective for the Western Balkans', and the [Global Gateway strategy](#). This would be further strengthened, as the Commission proposed a new [Reform and Growth Facility for the Western Balkans](#) in November 2023 for 2024-2027 (see below). In addition, synergies and complementarities are encouraged between IPA III and the following: [Horizon Europe](#), [Erasmus+](#), [Creative Europe](#), the European Green Deal, the [Just Transition Fund](#) and the [Connecting Europe Facility](#).

Energy support package

In December 2022, to mitigate the immediate effects of the energy crisis caused by Russia's full-scale invasion of Ukraine, and accelerate the energy transition in the region, the European Commission put forward an [energy support package](#) of €1 billion in EU grants for the Western Balkans. In May 2023, the region received the [first half](#) of the package, consisting of €500 million in budget support to cushion the energy price increase for SMEs and vulnerable households (90 % of which was disbursed directly, and the remaining 10 % later in 2023/early 2024, conditional on the successful implementation of national action plans). The remaining €500 million in grants is provided through the WBIF with the aim of advancing energy transition and independence, by supporting renewable energy projects, financing energy infrastructure, and improving energy efficiency. This directly contributes to IPA III's climate- and energy-related objectives.

The Reform and Growth Facility for the Western Balkans

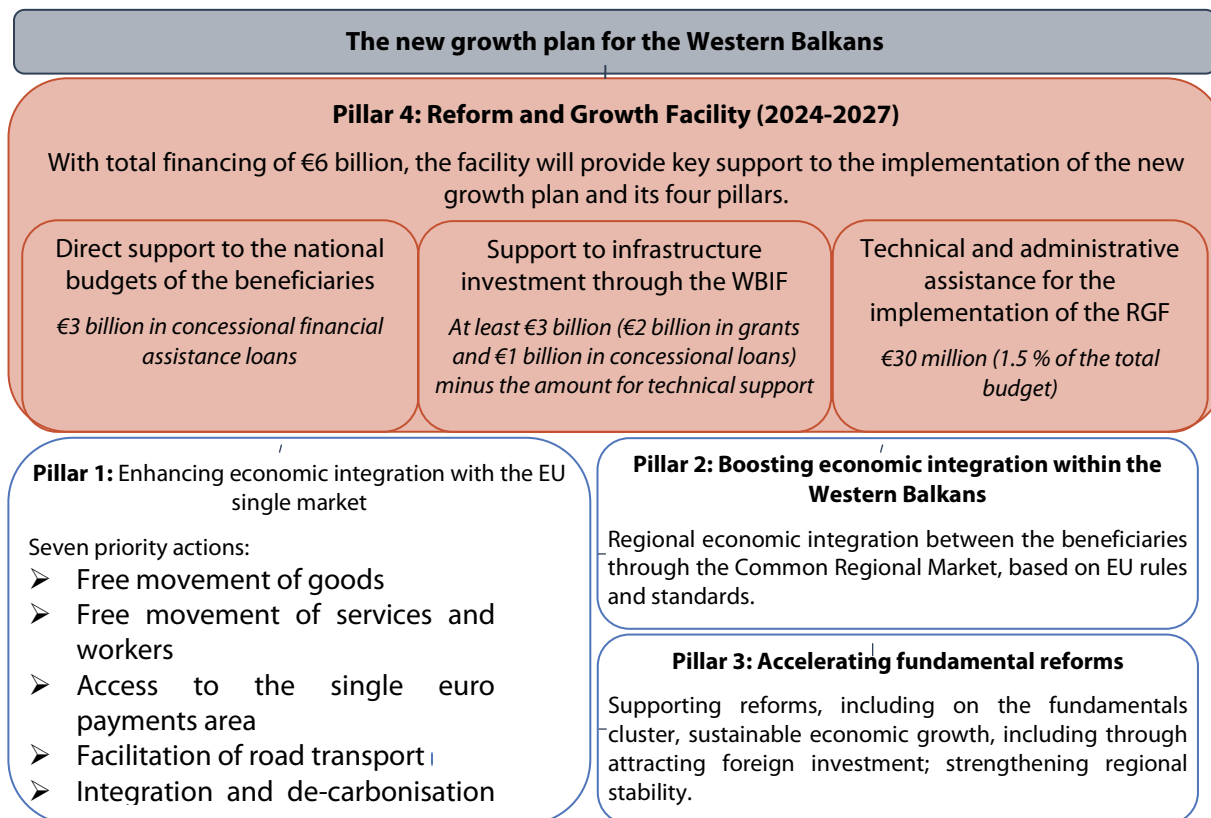
Economic convergence is essential for the integration of the Western Balkans with the EU; therefore, the persisting trade deficits and the unsatisfactory level of economic convergence (GNP per capita) constitute a serious challenge. In this context, on 8 November 2023 the European Commission launched the Reform and Growth Facility for the Western Balkans ([RGF](#)), a new financing instrument covering 2024-2027 and linking pillars III and IV, i.e. fundamental reforms and increased financial assistance, in a [new growth plan for the Western Balkans](#). The RGF, [applying](#) similar [operational](#) logic to the [Ukraine Facility](#), and **totalling €6 billion**, will combine grants and concessional loans. Specifically, the instrument consists of (a) €2 billion in grants to be allocated through the WBIF, pending agreement on the revision of the MFF, [Heading 6](#),³ and (b) €4 billion of concessional loans, of which about €3 billion will be released as direct support to national budgets and €1 billion will be allocated through the WBIF.

In line with the European Green Deal and the Green Agenda for the Western Balkans, at least 37 % of the non-repayable financial support channelled through the WBIF should [account](#) for **climate objectives**. The RGF, together with other pillars of the new growth plan that provide for a package of mutually reinforcing measures, has the potential to double the size of the WB economies within the next 10 years. The RGF will have pre-allocated indicative **country envelopes**, whose amount will be based on the relative number of inhabitants and the inverse of the GDP per capita,⁴ two factors that weigh for 60 % and 40 % respectively. These envelopes will set an indicative allocation that each beneficiary can expect to receive, conditional upon successful achievement of payment conditions, set in their respective reform agendas.

The RGF – proposed in [COM\(2023\) 692](#), which has been submitted to a [public consultation](#) lasting eight weeks and needs to be adopted by the European Parliament and Council under the ordinary legislative procedure ([OLP](#)) – will complement the existing financial assistance under IPA III, and together these will be the main financing instruments for the Western Balkans for 2024-2027. The financing combined under these two instruments will provide the region with roughly the same

financing intensity per inhabitant as cohesion policy does on average in the EU. Therefore, the initiative is expected not only to boost socio-economic convergence and bring WB partners closer to the EU's single market, but also reinforce the message that partners in the region can feel numerous benefits of closer integration with the EU even before accession.

Figure 8 – Structure of the new growth plan for the Western Balkans



Source: Commission communication, COM(2023) 691.

The RGF introduces **extensive ex-ante conditionality** by establishing a payment mechanism based on achieving key reforms set out under the reform agenda, which will replace the structural reform part of the [economic reform programmes](#), taking into account recommendations from the latest Commission enlargement package. In particular, the reform agenda, prepared by the beneficiaries – in consultation with, and assessed and adopted by, the Commission – will identify a limited set of priority reforms, broken down into qualitative and quantitative steps, that will serve as **payment conditions**, specific to each partner. In addition, the beneficiaries will need to fulfil **preconditions** related to fundamentals of the enlargement process (such as the rule of law, democracy, respect for human rights and fundamental freedoms). For

Court of Auditors' Opinion

In its [Opinion 1/2024](#), published on 7 February 2024, the European Court of Auditors (ECA) reviews the RGF, drawing attention to several points and providing suggestions.

The ECA notes the importance of defining the clear conditions for disbursing support in the reform agendas. Therefore, it suggests clarifying the procedure for withholding funds if a beneficiary country breaches a precondition for funding. It also recommends enabling the Commission to require WB governments to review and/or modify the reform agendas. In parallel, given that several of the objectives of the proposed RFG are similar to those under IPA III, the ECA considers it essential that the Commission pay particular attention to the coordination of assistance. In a context where some WB authorities have low administrative capacity to ensure a robust internal control system to protect the EU's financial interests, the ECA underlines the importance of prioritising reforms in the area of financial control in the early stage of RGF implementation.

Serbia and Kosovo, constructive engagement in the EU-facilitated [dialogue](#) on normalisation of relations will be another necessary precondition.

Macro-financial stability, sound public financial management, transparency and oversight of the budget are **general conditions** that have to be fulfilled for any release of funds, which is to be done twice a year, as for general budget support operations. If the conditions are not met, the Commission would suspend or deduct a corresponding amount from the payment. If a beneficiary fails to rectify such a situation, the Commission can decide to redistribute the concerned funding to the other WB partners. Such an extensive ex-ante conditionality mechanism and a different financing scheme, where two-thirds of the funding comes from loans taken by the Union and transferred to the beneficiaries, require an entirely new design, differing from the current external assistance instruments, including IPA III, which does not allow for the provision of loans, for example. Therefore, the Commission considers the creation of a new RGF to be the most suitable option for the ambitious approach of the new growth plan for the Western Balkans.

European Parliament position

Under [Article 49](#) TEU, Parliament must consent to any accession of new Member States to the EU. Parliament supports EU enlargement and a European perspective for all WB countries. At the same time, Parliament is a **vocal advocate for an extensive conditionality mechanism** in EU funding, and has been calling to apply targeted conditionality based on clear progress benchmarks, rewarding reforms and imposing sanctions for regression or a persistent lack of progress. For instance, its [resolution](#) of 13 December 2023 on '30 years of Copenhagen criteria – giving further impetus to EU enlargement policy' underlined that 'accession should always remain a merit-based process that requires the adoption and implementation of the relevant reforms ... in particular in the areas of democracy, the rule of law, human rights, fundamental freedoms, respect for and protection of minorities, the market economy and implementation of the EU *acquis*'. The resolution called for 'a robust monitoring mechanism to track the reforms and progress made ... in respecting all political criteria' and, in particular, called for 'a specific and effective monitoring mechanism to be set up for protecting fundamental values and the financial interests of the Union, in the context of accession procedures'. It also stressed 'the need for a broader rule-of-law conditionality mechanism covering the entire budget of the Union and all of the Union's fundamental values as defined in Article 2 TEU'.

In its [recommendation](#) of 23 November 2022 to the Council, the Commission and the HR/VP on the new EU strategy for enlargement, Parliament recommended setting the following

IPA III and the European Parliament

Parliament has a multifaceted role in the implementation of IPA III. Together with the Council, it has to authorise the annual appropriations within the limits of the 2021-2027 MFF. Then, in line with Parliament's role of political control, enshrined in Article 14 TEU, Parliament and the Commission have agreed to conduct a high-level geopolitical [dialogue](#) on the implementation of the IPA III Regulation semi-annually. The focus of the dialogue is to discuss the general implementation of IPA III, including programming and specific issues such as modulation of assistance to a beneficiary.

Parliament also raises important points through its non-legislative activities. For instance, its recommendation of 23 November 2022 on the new EU strategy for enlargement called to 'improve the consistency, efficiency, visibility and transparency of pre-accession assistance, clearly reflecting the priorities in the fundamental areas in the allocation of IPA III funding'. To ensure effective EU assistance, Parliament has also [repeatedly](#) asked to develop 'clear guidelines and benchmarks on the application of the provisions on modulation and conditionality' under IPA III, as recommended by the ECA in its [special report](#) on EU support for the rule of law in the Western Balkans.

preconditions for financial support and any further progress in the accession process: free, fair and democratic election processes, strengthening the electoral process, democratic pluralism, intra-party democracy, the adoption of internal frameworks for integrity and fighting corruption within political parties, the transparency of party and media funding, and judicial and media independence and freedom. In addition, Parliament underlined the importance of accession countries being aligned with the EU's CFSP. As Serbia does not systematically align with the EU's policy towards Russia, and most notably with sanctions against Russia, in the same resolution Parliament recommended to the Commission, Council and HR/VP to 'reconsider any bilateral and EU funds for Serbia that would benefit the Serbian authorities, in particular any pertaining to projects financed under the Western Balkan Economic and Investment Plan, in order to ensure that all EU expenditure is fully in line with the EU's strategic goals and interests'. Parliament also asked to be provided 'with a full and in-depth evaluation of the use of all pre-accession funds, including funds and projects ... in the [Western Balkans] region from 2015 onwards'.

Reform and Growth Facility (RGF)

On 13 December 2023, Parliament welcomed the new Growth Plan for the Western Balkans. In line with the [OLP](#), on an equal footing, Parliament and the Council examine the [proposal](#) for the Facility in the framework of the MFF mid-term review package. On 11 March 2024, Parliament's Committee on Budgets (BUDG) and the Committee on Foreign Affairs (AFET) [adopted](#) a joint committee [report](#). It calls to ensure that the RGF does not allow for overlaps or double funding with the IPA III instrument; for clear progress indicators; and for more safeguards for the 'fundamentals-first approach', strengthening the focus on rule of law and conditionality. It also aims to enhance the Facility's governance, focusing on stronger parliamentary oversight and transparency. On 6 March, the Council [agreed](#) on its [negotiating mandate](#), in which it highlighted the need for it to have a more prominent role in the governance and oversight of the RGF and put greater emphasis on aligning partners with the CSFP. On [4 April](#), the co-legislators reached a provisional agreement on the file, which still needs to be adopted by both institutions. To this end, on 9 April, during a joint AFET-BUDG meeting, MEPs are expected to endorse the agreement, following which Parliament would vote on its position during its second April 2024 plenary session.

ENDNOTES

- ¹ DG NEAR is the lead service. DG AGRI is responsible for rural development programmes and DG REGIO for cross-border cooperation programmes between IPA beneficiaries and EU Member States.
- ² The Commission adopted the [IPA III Results Framework](#) in December 2022 with a uniform set of indicators.
- ³ The proposal for an amendment of the MFF Regulation establishes that an additional €2 billion will be made available under Heading 6 for the assistance to the Western Balkans.
- ⁴ Determination of a population allocation key based on the ratio of the beneficiary's population over the total sum of populations for the region; determination of a GDP allocation key based on the ratio of the average GDP per capita for the region over the GDP per capita of the respective beneficiary and divided by the sum of the six ratios.

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